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THE FOLLOWING ACRONYMS ARE INTENDED TO MAKE THE REPORT MORE READABLE:

BCSC	**British Columbia Securities Commission**
CFAB	**The Commodity Futures Advisory Board**
CFA	**Commodity Futures Act**
CICA	**Canadian Institute of Chartered Accountants**
COATS	**Canadian Over-The-Counter Automated Trading System**
CVMQ	**Commission des valeurs mobilieres du Quebec**
CSA	**Canadian Securities Administrators**
FDAB	**The Financial Disclosure Advisory Board**
IDA	**Investment Dealers Association of Canada**
IOSCO	**International Organization of Securities Commissions**
MFI	**Ministry of Financial Institutions**
NCF	**National Contingency Fund**
OSC	**Ontario Securities Commission**
OSFI	**Office of the Superintendent of Financial Institutions**
SA	**Securities Act**
SRO	**Self-regulatory Organization (includes TSE, TFE)**
TCO	**Trans Canada Options Inc.**
TFE	**The Toronto Futures Exchange**
TSE	**The Toronto Stock Exchange**

ONTARIO SECURITIES COMMISSION
JAN 10 1990

This Report is also available in French.
Ce rapport est également disponible en français.

The Honourable Murray Elston
Minister
Ministry of Financial Institutions
7th Floor, Frost Building South
7 Queen's Park Crescent
Toronto, Ontario
M7A 1Z6

DEAR MR. MINISTER:

I AM PLEASED TO SUBMIT THE ANNUAL REPORT of the Ontario Securities Commission for the fiscal year ended March 31, 1989. ■

The past year was one of consolidation of programs undertaken over the past several years as well as the beginning of new regulatory initiatives as the Commission continues to grow and develop to keep pace with both rapid domestic change and the internationalization of capital markets. Increasingly, OSC involvement in the International Organization of Securities Commissions ("IOSCO") and work on joint understandings and ventures with fellow regulators, particularly in the United States and the United Kingdom, are taking the time of staff. ■

Bilateral negotiations with the U.S. Securities and Exchange Commission with respect to reciprocal offerings of debt and equity are nearing conclusion. Under the proposed reciprocal offering system, a prospectus cleared in one country will be accepted for the offering in the other country. Initially, these offerings will only apply to so-called world-class debt, equity, and rights offerings and to share exchanges consequent upon a take-over bid. Although some difficult questions remain to be resolved, we are confident that a significant reciprocal offering prospectus system will be in effect within the coming year. This is an extremely important development in international securities cooperation and we hope it will lead to similar arrangements with other countries in the near future. ■

The opening of our market to domestic and foreign financial institutions has imposed a heavy burden on the Capital Markets Branch. Rules were developed over the past year to accommodate the entry of banks, trust companies and insurance companies into the securities industry. Most significant was the drafting, in conjunction with our provincial colleagues, of rules regarding the sale of mutual funds and the offering of full brokerage and discount brokerage services by the branches of such institutions. These rules accommodate the needs of such institutions while at the same time preserving the regulatory protections provided under the Securities Act. It will be our continuing goal to develop capital market rules that, insofar as possible, are common to all the provinces. The Commission regards this commitment as critical in making a national system of securities regulation work in the context of separate provincial commissions. ■

In the ever-active field of take-over bids, one of the most significant events was the coming of the "poison pill" (or "shareholder rights plan") to Canada. Inco was the first company to introduce such a by-law change and the Commission indicated that it would require shareholder approval prior to the implementation of such a plan. Subsequently, a number of such plans have been introduced and shareholder approval was required in each case. Whether actual use of such a plan would contravene National Policy 38 with respect to defensive tactics to take-over bids is a matter that can only be dealt with in the context of a specific situation. It is not likely that poison pill plans will become widespread among Canadian public companies as the rules for take-over bids in Ontario arguably do not require their use in the same manner as in the United States. ■

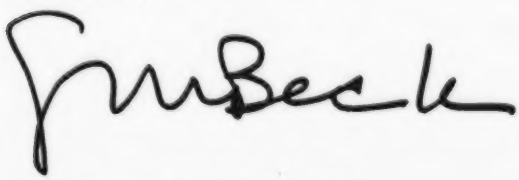
In Enforcement, the highlight of the year was the conclusion of a two-year long "front running" investigation which has led to a Notice of Hearing pursuant to section 124 of the Act with respect to a number of individuals. The investigation and the subsequent hearing constitute a major drain on the resources of the Enforcement Branch and serve to remind us that special funds must be set aside for large scale investigations such as those involved in the front running case and the Osler Inc. failure. While these are the two largest cases in Enforcement, other cases such as Crownbridge and Comaplex continue to put pressure on the Branch.

Limited resources require hard decisions, and we must be careful that the Branch is not denied the resources necessary to do the job that market policing demands. ■

It has been some time since there has been a substantial review of the Securities Act. The enforcement and remedies provisions are in particular need of review and updating in light of the demands of the Charter of Rights as interpreted by the Supreme Court of Canada. Accordingly, we are close to concluding a review of these powers and hope to present you with draft legislation for your consideration and for possible introduction in the Legislature in the fall session. At the same time, we have commissioned a broader review of the distribution system under the Act, the so-called "closed system". This system has served us well over the past number of years, but new structures and new financing devices have begun to reveal weaknesses that need to be remedied. We hope that draft legislation will be ready as early as the spring of 1990, although this may be optimistic. In any event, we are embarked on a major review of both the Securities Act and the Commodity Futures Act and the corresponding regulations. As always, these reviews will be cooperative ventures with the securities industry and their professional advisors. ■

Finally, on a personal note, I am retiring as Chairman of the Commission as of June 30, 1989. I have had the honour of serving for four years and during that time have had the utmost co-operation of the Government and have been accorded outstanding support from two Deputy Ministers, Bryan Davies and Bob Simpson. Without their concern and understanding, the Commission would not have been able to make the enormous strides that I believe it has. The Government has been continuously supportive of our policy initiatives and of our need for resources and I wish to record my appreciation. I am particulary delighted that Robert Wright will be my successor; I have every confidence that he will carry on the building of the OSC to make it one of the word's finest securities regulatory agencies. ■

Yours sincerely,



STANLEY M. BECK, Q.C.
CHAIRMAN

THE COMMISSIONERS

STANLEY BECK, Q.C.,

a Commissioner from 1971 to 1982, was appointed Chairman in 1985. He has had a distinguished academic career, having taught at several Canadian univerisities, most recently as Dean, Osgoode Hall Law School, from 1977 to 1982.

CHARLES SALTER, Q.C.

held several senior appointments with the Government of Ontario prior to his appointment as Vice-Chairman in 1984. He served as Director of the Commission from 1975 to 1984.

FRANCES CARMICHAEL,

a financial analyst, has held senior corporate finance positions with Manulife, Magna International and Canada Consulting Group. She served as a Commissioner until April 1989.

JACK BLAIN, Q.C.,

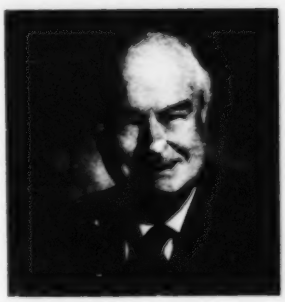
a retired partner in the law firm McCarthy & McCarthy, practised corporate and securities law and lectured at the University of Toronto Law School prior to his retirement.

MALCOLM TASCHEREAU

has had extensive experience in the natural resource sector. He was a vice-president and president of Dome Mines and is chairman and director of several mining and resource corporations.

ALFRED HOLLAND, C.A.,

a Commissioner since 1981, is president of Candeco Limited, a family investment holding company. He served as a Commissioner until June 1989.



PAUL WAITZER

is a former governor of the TSE and a former chairman of the National Contingency Fund. He has also served as president and chief executive officer of a multi-branch investment firm and is president of a private investment and development company.

TIMOTHY REID

is Professor of Business Management at Ryerson Polytechnical Institute. Mr. Reid holds degrees in Economics from the University of Toronto, Yale and Oxford and has extensive experience with the Canadian government and the Paris-based Organization for Economic Co-operation and Development.

SEYMOUR WIGLE, F.C.A.,

a former partner of Price Waterhouse, Chartered Accountants, was Director, Technical Services at the time of his retirement. He is a past president of The Institute of Chartered Accountants of Ontario.

WILLIAM MOULL

is a member of the Ontario Bar and was a member of the faculty of Osgoode Hall Law School, York University, Toronto from 1979 to 1987. He has written extensively on commercial and constitutional law matters and is currently in practice in those fields in Toronto.

MARTIN FRIEDLAND, Q.C.

is a Professor of Law at the University of Toronto and was Dean from 1972 to 1979. He was a member of the secretariat to the Attorney General's Committee on securities regulation and most recently, Chairman of the Ontario Task Force on Inflation Protection for Employment Pension Plans (1987-88).

OFFICE OF THE LEGAL ADVISOR TO THE COMMISSION

THE OFFICE OF THE LEGAL ADVISOR TO the Commission advises on legal and policy matters, drafts legislation and policy statements and undertakes a variety of special projects. ■

The implementation of National Policy Statement No. 41 – Shareholder Communication, which applies to shareholder meetings held on or after March 1, 1988, has been a major focus of the Office of the Legal Advisor. The Policy requires reporting issuers and intermediaries to follow specified procedures to ensure that non-registered shareholders receive corporate information and are able to exercise their right to vote. The Legal Advisor chaired the Industry Implementation and Monitoring Committee, and advised staff and the Commission with respect to applications made under the Policy. During the fiscal year, 103 waivers and orders were granted by the Commission. The Office was also involved in the development of waiver and exemption procedures, and in the extension of the Policy, as of March 1, 1989, to issuers listed on the Vancouver and Alberta stock exchanges. ■

The Legal Advisor and the Executive Director represented the Commission as members of the Joint OSC-IDA-TSE Committee on Confidential Information. The Committee produced a proposed policy for consideration by the Commission, with respect to the establishment of procedures to control the flow and prevent the misuse of confidential information within integrated firms in the securities industry. The proposals were adopted by the Commission in the form of draft OSC Policy 10.2, which was published for comment in January, 1989. ■

The Office of the Legal Advisor assisted the COATS Task Force in developing recommendations to improve and expand the Canadian Over-the-Counter Automated Trading System ("COATS"), and contributed substantially to the writing of the Report of the Task Force, which was released to the public on March 17, 1989. ■

The Office of the Legal Advisor served as the coordinator within the OSC for all requests for release of information pursuant to the Freedom of Information and Protection of Privacy Act, 1987, which came into effect on January 1, 1988. ■

Other significant policy and regulatory initiatives undertaken by the office during the year included:

- development of Interim National Policy Statement No. 42 on advertising;
- continued involvement in the preparation of rules for Management Discussion and Analysis in financial statements and other disclosure documents;
- review of the Investment Contracts Act in conjunction with Office of the Superintendent of Insurance of the Ministry of Financial Institutions; and,
- continued work on a draft Code of Conduct for registrants who are not members of the TSE, IDA (Ont.) or TFE, for finalization in upcoming year.

The OSC plays a leading role at the semi-annual meetings of the Canadian Securities Administrators (CSA) which are co-ordinated by the Office of the Legal Advisor. The agenda is set in consultation with CSA participants, and the Legal Advisor chaired the meetings held this past year. ■

MESSAGE FROM THE EXECUTIVE DIRECTOR

THE COMMISSION HAS UNDERTAKEN important regulatory initiatives and has undergone significant structural changes in the past fiscal year, all of which serve to enhance the Commission's ability to discharge its regulatory mandate in increasingly complex and globalized securities markets. ■

Particular emphasis has been placed on staff involvement in the work of the Canadian Securities Administrators in cooperation with securities regulators from other provinces and industry representatives, in developing national standards, policies and legislation. We have also been active participants in the work of the International Organization of Securities Commissions (IOSCO), and other international organizations, such as the Wilton Park Enforcement Group, which serve to increase international co-ordination and cooperation. Following the ratification last year of a Memorandum of Understanding with the United States Securities and Exchange Commission, we expect to enter into memoranda of understanding with a number of other foreign jurisdictions, which will enhance our respective enforcement capabilities. ■

OSC Reception

We have undertaken a major review of capital, financial reporting and audit requirements of investment dealers and are currently engaged in discussion of that review with industry representatives. We expect that review to lead to revised rules and a new reporting relationship that will encourage appropriate prudence and margins of safety. We also have reviewed the compliance capacity of the IDA and the operations of the NCF. These reviews should result in increased investor protection. ■

We participated in the work of the COATS Task Force, which has recommended substantial changes to the Canadian Over-The-Counter Automated Trading System. COATS has already resulted in a significant improvement in the over-the-counter market and has the potential to provide further benefits to smaller issuers and to investors. ■

In response to increasingly active and evolving market for syndicated real estate investments, OSC staff under took a review of these products. We found that many o these investments were being marketed without com pliance with the requirements of the Securities Act Accordingly, we took the initiative during the past yea in developing transitional provisions and informin market participants of our intention to require com pliance. A new policy on real estate syndications is cu rently being drafted by the Corporate Finance Branch.

On the legislative front, private sector lawyers hav been retained to assist staff in a comprehensive revie of the investigation and enforcement provisions of th Securities Act with a view to the introduction of legislative proposals later this year. As well, we are undertaking a comprehensive review of the entire Securities Act, including the operation of the "closed system," with a view to developing legislative proposals within the next year. ■

Shortly after the end of the fiscal year I left the Commission to become Vice-Chairman and Executive Director, Corporate Finance with the newly created Securities and Futures Commission in Hong Kong. I wish to express my appreciation to the staff and the Commission for their support. To say that the last five years have been eventful would be an understatement. It is a tribute to the quality and dedication of the personnel at the Commission that we have successfully undergone a period of tremendous change and achievement, both internal and external. ■

I would also like to acknowledge the understanding an support of the Government and the private sector. Whil maintaining a healthy independence we have worke in a cooperative and consultative spirit with the securi ties industry and professionals. ■

The staff of the Commission is as strong and as capabl today as at any time in the history of the organization The foundations have been laid for an even more effec tive regulatory agency in the future. This is in larg measure the result of the vision and leadership of th retiring Chairman, Stanley M. Beck. ■

Ermanno Pascutto

ERMANNO PASCUTTO

OFFICE OF THE CHIEF ACCOUNTANT

SIGNIFICANT PROGRESS HAS BEEN made on the financial reporting initiatives outlined in last year's annual report, and several new developments are underway. There is a trend toward more comprehensive financial reporting which can be expected to accelerate. ■

The financial statement review program continues to indicate an uneven application of accounting standards, particularly with respect to disclosure in the notes to financial statements. With the increasing importance and complexity of financial reporting requirements, OSC staff encourage issuers and their advisers to consult with them on difficult or unusual financial reporting issues as far in advance of filing as possible. This consultation process avoids both the delay which results from identification of issues late in the process and the risk of Commission intervention. ■

In June of 1988 the OSC and CVMQ published a Management Discussion and Analysis proposal which calls for enhanced disclosure about the nature of the issuer's business and an analysis of financial conditions and results of operations. ■

Staff Accounting Communiques ("SACs") were introduced by the Office of the Chief Accountant in order to improve the awareness and understanding of our current practices and procedures on the part of issuers and the accounting profession. SACs will report on staff's views on various financial reporting matters. ■

The Office of the Chief Accountant has been actively involved in the work of the CSA in reviewing the role and responsibility of audit committees, reporting requirements dealing with change of auditors and the use of management reports. ■

The Office of the Chief Accountant has also been involved in the CICA Emerging Issues Committee (EIC). The Chief Accountant is the CSA representative on the EIC, which was created to deal with emerging accounting issues not addressed by present accounting standards. Proposals developed in co-operation with the SEC for a reciprocal approach to prospectuses filed by world-class issuers will be published for comment by early summer. An important aspect of this project deals with financial reporting and auditing requirements in an international environment. ■

The International Accounting Standards Committee, with the assistance of a working party including the OSC Chief Accountant, published an exposure draft in November, 1988 which recommends narrowing of alternative accounting treatments in an effort to harmonize accounting standards worldwide. The Chief Accountant is also a member of a working party which is comparing international auditing guidelines to requirements in major reporting jurisdictions, with particular emphasis on ethics and independence. ■

Revisions to OSC Policy 5.8 concerning Forecasts and Projections have been finalized and will be issued in June of this year. The CICA will be publishing both an accounting standard and an auditing guideline at the same time. The simultaneous issuance of these three statements marks the conclusion of a lengthy cooperative project. ■

OFFICE OF THE GENERAL COUNSEL

THE OFFICE OF THE GENERAL Counsel is primarily responsible for administering the take-over bid, issuer bid and merger and acquisition provisions of the Act, the Regulation, and OSC policy statements. The Office of the General Counsel provides advice to the Executive Director regarding applications for relief from certain merger and acquisition requirements under the policy statements, such as valuation waivers, and provides recommendations to the Commission in connection with applications for relief from the take-over and issuer bid provisions of the Act. As well, the Office of the General Counsel is frequently involved in reviewing complaints and allegations of non-compliance relating to take-over bids, issuer bids and merger and acquisition transactions. ■

In addition to involvement with merger and acquisition activities, the General Counsel is the senior Commission staff lawyer. In this capacity, the General Counsel provides advice to OSC staff on matters of interpretation of legislation and policies. ■

Since the October 1987 market break, the Office of the General Counsel has handled a heavy transactional workload involving applications and requests for staff intervention arising from the significant number of merger and acquisition transactions carried out during this period. In response to this increased workload, the staff complement was increased in 1989 with the appointment of an Associate General Counsel and the addition of a second Legal Counsel. ■

In last year's Annual Report, note was made of the new take-over bid and issuer bid rules which came into effect on June 30, 1987. Not surprisingly, a considerable amount of time was spent by General Counsel staff during the past year dealing with offerors and other parties regarding the interpretation and application of some of these new rules. For instance, the "pre-bid integration rules" introduced by the 1987 amendments were the subject of two formal proceedings, and a number of informal matters, involving staff. The pre-bid integration rules extend the basic principle that all shareholders be offered the same consideration under a bid to private transactions carried out within 90 days of the bid. Any bid made within 90 days of a private transaction must be made on terms at least as good as the private transaction. In Western Corporate Enterprises Inc. and 1710 Holdings Ltd., a joint hearing was convened with the BCSC to consider the scope of these rules. In the result, the Commission and the BCSC ceased traded 1710's 30% partial bid because persons acting jointly or in concert with 1710 had acquired 100% of the common shares of the target company from certain shareholders within 90 days of the bid. Later in the year, the Office of the General Counsel received a request from The Toronto Stock Exchange to determine whether the pre-bid integration rules were applicable to block purchases of common shares of Falconbridge Limited which had been effected on behalf of Noranda Inc. prior to a proposed partial stock exchange bid by Noranda for Falconbridge shares. Staff reviewed Noranda's institutional trading in the Falconbridge shares and concluded that it would not be appropriate for Noranda to proceed with a bid for Falconbridge shares within 90 days of its institutional purchases unless the terms of Noranda's bid were at least as good as the terms of the institutional purchases made by Noranda. ■

The principle of equal treatment of offeree shareholders during a take-over bid was also emphasized by the Commission in a number of other proceedings. Some of these cases involved concerns about collateral benefits for only certain offeree shareholders. For instance, in a joint hearing the Commission and the CVMQ issued cease trade orders regarding the bid by Institut Merieux S.A. for CDC Life Sciences Inc. due to concerns about the value of additional rights given to only one offeree

shareholder. The Commission also addressed the issue of collateral benefits in the R.M.V. Acquisition, Spearhead and Vulcan Packaging matter. In another situation involving Standard Trustco, Roman Corporation and Denison Mines, the Commission denied an exemption application due to concern about the bid not being made generally to offeree shareholders. ■

One of the most significant developments during the past year in the Canadian take-over bid area was the creation and adoption of a "shareholder rights plan" or "poison pill" for the first time by a Canadian company. The "shareholder rights plan" developed by Inco was part of a proposed "recapitalization" which involved the payment of a dividend to all shareholders as well as the adoption of the "poison pill" plan. The "recapitalization" was placed before and approved by Inco's shareholders. In the view of Commission staff, shareholder involvement is required in the creation of a "shareholder rights" or "poison pill" plan. Accordingly, the Inco plan as well as the subsequent plans created by Pegasus Gold, International Thunderwood and Agnico-Eagle Mines have been placed before their shareholders for approval. To date, the involvement of Commission staff with "poison pill" plans has been limited to the creation and adoption of such plans. In the event that a plan is implemented, Commission staff will closely monitor such use under National Policy 38 dealing with "Defensive Tactics" and the Commission's residual jurisdiction. ■

Due to its substantial transactional workload, the Office of the General Counsel was not able in 1989 to commit significant resources to policy matters. Staff is continuing to complete its review and revisions to OSC Policy Statement 9.1. In its review, staff is focusing on the extent and quality of disclosure relating to independent valuations provided to shareholders under this Policy. As well, staff is reviewing the role of "independent committees" in going-private or non-arm's length transactions. Given the concentrated nature of the Canadian economy, it is essential that the rules relating to going private and non-arm's length transactions ensure meaningful disclosure and fair treatment of minority shareholders. During the course of the debate last fall regarding Inco's "poison pill" plan, one advantage cited by proponents of "poison pill" plans was the additional time afforded by such plans to the board of directors of a target company in the face of an unsolicited bid. At the present time, Commission staff is reviewing the time periods applicable to circular and exempt bids for the purpose of determining whether these time periods are appropriate. As part of the bilateral negotiations with the United States Securities and Exchange Commission it is anticipated that the reciprocal proposals would permit certain Canadian take-over bids to be made by offerors in the United States based on compliance with Canadian requirements. Conversely, certain U.S. tender offers could be made in Canada based on compliance with U.S. requirements. ■

CORPORATE FINANCE BRANCH

Corporate Finance Accountant Dorothy Sanford.

FOR THE CORPORATE FINANC
Branch, the fiscal year ending March 31, 1989 wa
characterized by a decline in the number of public offe
ings. The number of offerings by senior issuers, in th
prompt offering qualification system, (the "POP System
declined by approximately 35%. The number of pr
spectus filings declined by 27%, and the dollar valu
of prospectuses accepted declined by 49% to $8.9 billio
The dollar value of equity offerings declined fro
$12.4 to $5.4 billion and debt offerings from $4.8
$3.4 billion. ■

The lower volume of offerings enabled the Branch t
devote resources to advancing a number of policy ini-
tiatives. National Policy Statement No. 39, which
governs the filings and affairs of Mutual Funds, was
amended in a number of important respects. Of greatest
significance was the relaxation of the settlement re-
quirement and the adoption of a five day settlement
system. The amendments to the Policy were developed
by the Mutual Fund Subcommittee of the Canadian
Securities Administrators. ■

Corporate Finance staff participated in a major initiative
with respect to the regulation of syndicated real estate
offerings, which included the publication in the O.S.C.
Bulletin in October 1988 of a Notice regarding the appli-
cation of the Securities Act to residential real estate
offerings, and the implementation of transitional
procedures to permit such offerings to be sold without
strict compliance with the Securities Act. Staff are pre-
paring a draft policy statement governing real estate
offerings, which will be released for public comment
later this year. ■

Branch staff are continuing to work with the U.S. Sec
rities and Exchange Commission and the CVMQ
develop a system for the reciprocal acceptance of filin
of senior issuers. In addition, the Branch is participati
in the work of the IOSCO to define the regulatory pro
lems encountered in multi-jurisdictional offerings a
to recommend revisions that would facilitate su
offerings. ■

PROSPECTUS FILINGS ACCEPTED AND VALUE OF OFFERINGS

FISCAL YEAR ENDING MARCH 31	1989 No	1989 $Mill	1988 No	1988 $Mill
Bank	4	675	4	436
Industrial	87	5,328	173	11,657
Mutual Fund	259	N/A	232	N/A
Natural Resource:				
Junior Mining	34	49	80	92
Mining – Other	18	747	44	1,474
Junior Oil and Gas	7	24	14	53
Oil and Gas – Other	16	856	30	938
Real Estate Program	25	600	13	448
Small Business Development Corp.	2	19	1	1
Trust Company	3	156	4	354
Miscellaneous	19	402	32	1,844
	474	8,856	627	17,297
% Change	– 24	– 49		

Table does not include exchange offering prospectuses, prospectus filings which were withdrawn, and prospectus filings for which the Director refused to issue a receipt.

Branch staff also are working with the CICA and the CVMQ to develop new rules for future oriented financial information, and amendments to OSC Policy 5.8 on Financial Forecasts. An OSC internal study on the accuracy of forecasts in prospectuses has been completed. Several members of the branch have been involved with the Office of the Chief Accountant in the development of a proposal to require inclusion of Management Discussion and Analysis in disclosure documents. Other Branch staff have been working with a private sector lawyer who has been retained to prepare a proposed draft of amendments to parts of the Securities Act. ■

Equity offerings accounted for 61% of the total value of prospectus offerings (vs 72% in 1988) and short form prospectuses accounted for 32% of the value of all equity prospectus offerings and 82% of all debt offerings. At present 158 issuers are eligible to access the POP system for senior issuers and have filed current Annual Information Forms. ■

During the year, the Branch reviewed 487 prospectuses (664), 67 Rights Offerings (69), 6 exchange offering prospectuses (18), and 52 short form prospectuses (80). ■

In addition, 464 applications for exemptions from the Act were reviewed (330), and 225 applications for transfer within, or release from, escrow were considered. ■

CAPITAL MARKETS BRANCH

Capital Markets Section

The past year has been one of growth and accomplishment for the Capital Markets Branch of the Commission. The Branch was formally constituted in 1988 and has grown to a size of approximately 35 people, comprising three sections – Capital Markets, Registration and Commodity Futures (each of the latter two sections is headed by its own Deputy Director). ■

The primary responsibilities of the Capital Markets section of the Branch are: to complete the implementation of universal registration; resolve issues arising from the participation of financial institutions in the securities industry; provide regulatory oversight of self-regulatory organizations and the investment funds industry; and develop regulatory responses to new issues and emerging trends in the capital markets area. ■

Noteworthy initiatives and achievements in the past twelve months have included:

- the development and implementation of uniform Principles of Regulation regarding the sale of mutual funds and the offering of full brokerage and discount brokerage services in branches of financial institutions;
- the development of a regulatory model to accommodate the activities of International Advisers;
- the review and clearance of numerous acquisitions of registrants and novel networking arrangements; and
- an extensive examination of significant issues raised by a proposal to introduce computer operated market access systems to the Ontario market. ■

During the next twelve months the Capital Markets Section of the Branch plans to undertake a review of the conflict of interest sections in the Regulation under the Securities Act; complete the implementation of universal registration, including the development of conditions of registration for limited market dealers and financial intermediary dealers; develop a regulatory model to be applied to the Canadian Depository for Securities; finalize a package of amendments to the fee schedule under the Securities Act; and continue monitoring developments in the regulation of the financial planning industry.

Registration Section

The advent of universal registration has had a profound effect on the work of the Registration section. The most immediate impact was felt in the increased volume of applications for registration. During the last year the Section has made a concerted effort to reduce its backlog of applications and significant progress has been made. Efforts are continuing to reduce processing times and improve service by:

Deputy Director Julia Gresham with members of Registration Section staff.

(a) increasing staff resources and streamlining the Section organization and decision making processes;

(b) expanding the use of computerized systems;

(c) increasing formal staff training programs;

(d) developing a policies and procedures manual to assist staff and registrants; and

(e) enhancing public awareness of the Section's policies and requirements through the publication of Clarification Notes. ■

Universal registration has not just increased the volume of the Section's work, it has also required the examination and reappraisal of long-standing policies and rules for regulating registrants. Accordingly, the Section is now involved in a greater degree of policy development as the Branch develops appropriate rules for dealing with issues such as supervision, proficiency standards, multiple registration, conflicts of interest, and limited market dealers. The introduction of the concept of compliance plans and a new two-tier system for registration of junior and senior investment counsel are examples of the results of this process. In approaching these issues the challenge will be to develop a regulatory model which is clear and comprehensive yet flexible enough to cope with a rapidly changing market landscape. ■

REGISTRATION

FISCAL YEAR ENDING MARCH 31	1989	1988	1987
Dealers (all categories)	950	550	374
Advisers	185	169	157
Salespersons (all categories)	13250	13600	7629
Officers and Directors	4520	4250	3824
Branch Offices	2850	2570	400
Renewals	550	374	349
Total Company dockets in process (including amendments, new registrations)	7445	–	–
Total Salesperson dockets in process (including new registrations, terminations, transfers)	6250	–	–
Total Staff	22	17	11

Commodity Futures Section

The Commodity Futures Section of the Branch administers the Commodity Futures Act and Regulations and the Recognized Options Rationalization Order made pursuant to the Securities Act. The Commission, with the support of staff of the Section, provides regulatory oversight for trading in commodity futures contracts, commodity futures options, options, precious metal certificates and certain other derivative instruments traded by residents of Ontario. ■

The Commodity Futures Section is frequently involved in registration and enforcement issues, develops policy initiatives respecting the regulation of trading in commodity futures contracts, commodity futures options, options, precious metal certificates and other derivative instruments and assists the Corporate Finance Branch in the administration of O.S.C. Policy 11.4, the Commission policy which addresses commodity pool programs. ■

All new TFE by-laws and amendments to existing by-laws are submitted to the Commission for non-disapproval and are reviewed by the Section. Where its expertise is required, the Section also reviews by-law initiatives of the TSE, IDA and TCO. ■

The Commodity Futures Act requires the registration of certain participants in the commodity futures markets. For the period ending March 31, 1989, 24 firms held registration as Futures Commission Merchant (1988-24) and 8 firms held registration as Adviser (1988-11). ■

In the past year Staff of the Section reviewed and processed 5 applications for orders and rulings by the Commission (1988-12), 8 TFE, TSE, IDA and TCO by-law rule initiatives (1988-21) and 6 submissions relating to new or amended options (1988-3). ■

Policy initiatives for the year included drafting amendments to the Commodity Futures Act to amend the definition of the term "commodity"; reviewing certain rules of TCO, including the rule relating to the adjustment to the terms of equity options following a distribution, stock split, reorganization, recapitalization or the declaration of dividends by the issuer on whose shares options are written or purchased; and preparation, for Commission approval, of a revised and comprehensive Recognized Options Rationalization Order. ■

In the coming year the Section proposes to undertake a major review of the Commodity Futures Act and Regulation, with a view to developing amendments to the legislation which will respond to regulatory needs in the rapidly changing and dynamic commodity futures industry. ■

ENFORCEMENT BRANCH

Deputy Director Susan Campbell in the Enforcement Vault

THE ENFORCEMENT BRANCH IS responsible for a wide range of activities in the areas of: (i) investigations; (ii) enforcement proceedings before the Commission, the Provincial Court (Criminal Division), and the Supreme Court of Ontario; (iii) public inquiries and complaints; (iv) market surveillance and supervision; and (v) regulation of the Canadian Over-the-Counter Automated Trading System ("COATS"). ■

As was noted in the 1988 Annual Report, an extensive reorganization of the Enforcement Branch was carried out in 1988. An Enforcement Inquiries Section was established in August 1988 to handle all public inquiries, and the work of Investigation and Enforcement Section is now limited to the investigation and prosecution of major cases. The Market Surveillance Section monitors the trading of securities in Ontario and has primary responsibility for the operation of COATS. ■

Investigation and Enforcement Section

Staff undertook 109 formal and informal investigations last year. A two year investigation into suspected improper trading practices of senior securities traders led the Commission to issue a Notice of Hearing in February 1989 to determine whether their registration and trading privileges should be revoked based on alleged misuse of confidential information, the misappropriation of profits and the giving and receiving of improper benefits. ■

Arising out of the same case was a constitutional challenge to the validity of the Commission's investigation powers. The Supreme Court of Ontario upheld the Commission's powers and an appeal to the Ontario Court of Appeal was dismissed. ■

Since January 1988, the OSC has conducted an extensive and ongoing investigation into the collapse of Osler Inc., and has been involved in a number of legal proceedings in the Supreme Court of Ontario relating to Osler Inc. and its former President and CEO. On December 9, 1988, 263 charges were laid under s. 108 of the Securities Act against Osler Inc., three former principals, the former Vice-President, Finance and the former money market trader of Osler Inc. ■

In February 1989, following a three month investigation by the Commission and the BCSC, charges were laid in Ontario in respect of alleged wrongful insider trading in the shares of Doman Industries Limited. ■

The Commission disciplined a number of registrants for failure to comply with the requirements of the Securities Act. The owners, senior management and branch level trading officers of Qualico Securities Limited were disciplined for failure to supervise staff, for using non-registrants to sell securities and for abusing the seed capital and government incentive security exemptions. This case reflects the Commission's earlier warning that it would hold senior personnel of securities dealers responsible for misconduct by their staff. ■

In another disciplinary matter, the Commission suspended a registrant's registration for 108 months for his conduct in relation to the distribution of the securities of Orwell Energy Corporation. In this case, the Commission emphasized the importance of the "know your client rule."

Market Surveillance Section

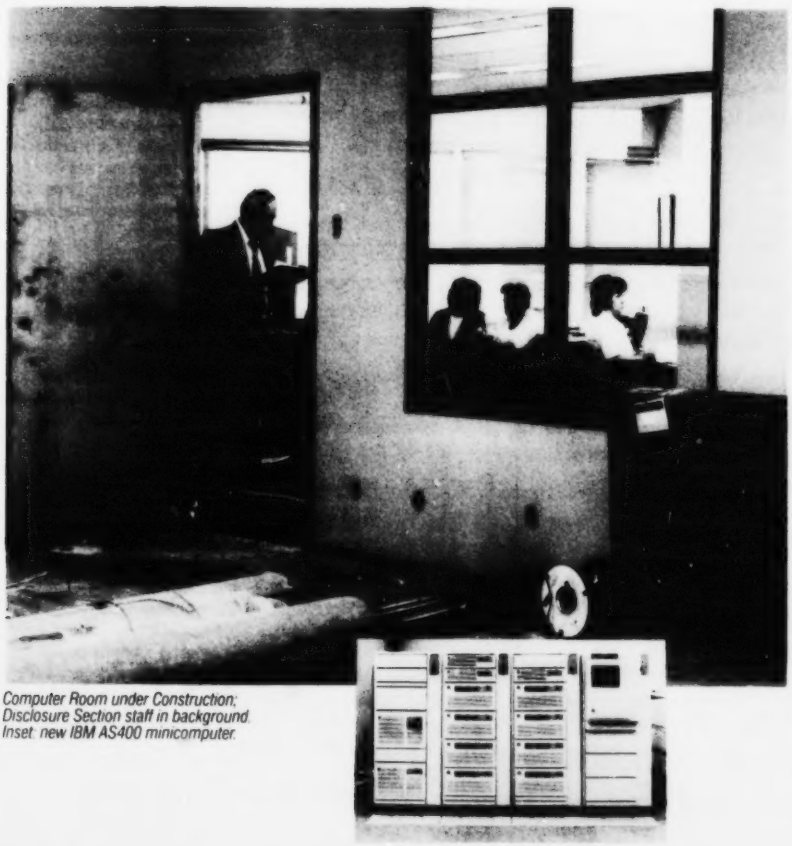
The following discussion of volumes and values is based on calendar year statistics. ■

COATS began operation in April, 1986. The average daily volume in 1988 was 1,240,734 shares as compared to 1,752,520 shares in 1987. The average daily value fell to $2,605,103 in 1988, from $7,322,424 in 1987. There were 39 brokerage firms quoting 398 stocks in COATS as opposed to 40 firms quoting 349 stocks in 1987. ■

During the year ended March 31, 1989 surveillance of the trading of shares of reporting issuers resulted in the detection of 47 instances of unusual trading patterns (1988-43) of which 24 required further investigation (1988-26). ■

FISCAL YEAR ENDING MARCH 31	1989	1988
Complaints Referred to SROs	84	93
Hearings		
Director	1	8
Commission	15	19
Investigations		
Formal	14	17
Informal	95	72
Prosecutions/Appeals		
(Informations Sworn)		
Criminal Code		2
Securities Act	16	14
Convictions		
(Number of charges successfully prosecuted)		
By count	38	108

ADMINISTRATIVE & SYSTEMS SERVICES BRANCH



Computer Room under Construction; Disclosure Section staff in background. Inset: new IBM AS400 minicomputer.

THE ADMINISTRATIVE & SYSTEMS

Services Branch has been restructured in order to accommodate the implementation of the Commission's information technology strategy and to improve the administrative support provided throughout the OSC. The Branch now comprises, in addition to the Systems and Administrative Groups, the Office of the Secretary, and the Continuous Disclosure Section. ■

The Office of the Secretary provides direct support to the Commissioners and their deliberations. The secretariat ensures that all decisions and orders of the Commission are issued and published, and that all documents and evidence before the tribunal are properly recorded for future reference. The Office of the Secretary also processes all applications for Orders and Rulings, co-ordinates the publication of the OSC Bulletin, schedules hearings and prepares agenda and minutes of Commission meetings. ■

The Continuous Disclosure Section is responsible for monitoring filings and publication of financial disclosure information, proxy solicitation material, insider trading reports and all material required to be filed in respect of take-over bids and issuer bids. Approximately 6000 issuers filed more than 70,000 documents with the OSC during the 12 month period ended March 31, 1989. During that period, the Section followed up over 4800 cases where issuers failed to file required information on time, and 2400 deficiencies in filing of insider or private placement reports. ■

During the 12 month period ended March 31, 1989 the Section recommended suspension of trading in shares of 146 companies which failed to file financial or other disclosure information. It also issued over 900 certificates of "no default." The Section also received and reviewed 1398 private placement forms covering over 17000 exempt trades. ■

FISCAL YEAR ENDING MARCH 31	1989	1988	1987
EXPENDITURES			
Salaries and Wages	$ 6,440,672	$5,089,056	$4,443,751
Employee Benefits	$ 837,068	$ 653,731	$ 650,662
Transportation and Communications	$ 357,264	$ 311,641	$ 265,326
Services	$ 2,111,880	$1,881,678	$ 831,368
Supplies and Equipment	$ 1,925,048	$ 420,788	$ 200,608
TOTAL – (Note 1)	$11,671,932	$8,356,894	$6,391,715

FISCAL YEAR ENDING MARCH 31	1989	1988	1987
REVENUES TO THE PROVINCE GENERATED BY OSC SERVICES (Note 2)			
Registration – Brokers & Salesmen (Note 3)	$ 6,906,568	$ 7,292,273	$2,978,078
Corporate Finance – Prospectus Filings	$ 3,902,837	$ 4,501,457	$4,502,959
Rulings	$ 425,713	$ 236,171	$ 171,732
Disclosure – Filing, etc., fees	$ 2,174,754	$ 2,069,494	$1,125,048
Miscellaneous	$ 5,797	$ 10,621	$ 17,089
Total	$13,415,669	$14,110,016	$8,794,906

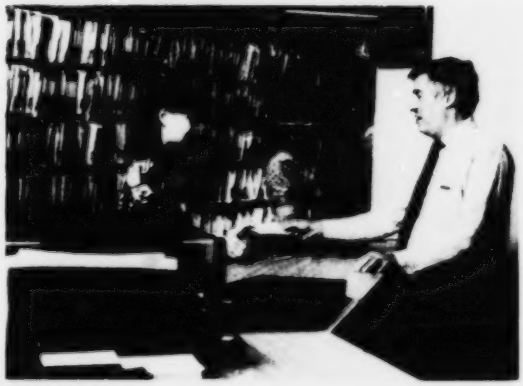
NOTE 1:
The increase in actual expenditures primarily results from:
- **investigations requiring specialized services and resources;**
- **industry deregulation and the requirement for special professional and staff resources; and**
- **a major technology implementation plan with one time equipment and consulting costs.**

NOTE 2:
All revenues are remitted to the Consolidated Revenue fund of the Province of Ontario and are not retained by, or credited back to, the OSC. Effective July 1, 1988 fees charged by the Commission were increased significantly.

NOTE 3:
The increase in registration revenues from 1986/87 to 1987/88 results primarily from:
- **capital fees on dealers' total regulatory capital; introduced in July, 1988;**
- **registration of securities dealer and mutual fund dealer subsidiaries of financial institutions; and**
- **new registrants under the Universal Registration System.**

The Systems Services Section of the Branch has been formed to implement a multi-year information technology project to improve the efficiency of the Commission in processing registrations, filings and other business activities of the Commission. The project will also put in place options to allow management better control in monitoring the status of the Commission's activities and coordinating one event or transaction with other activities or actions of the Commission. As it is implemented, this project will address the need to share information between branches in the Commission and with the regulatory agencies of other jurisdictions. The first projects to be implemented will be records management, prospectus filing, investigation monitoring and office support. ■

To deliver these services the Commission has contracted with a management consulting firm and has acquired two IBM AS 400 mini-computers. Departmental local area networks will next be established using the mini-computers as a central data base and processors. ■



The OSC File Room

THE MANDATE, POWERS AND STRUCTURE OF THE OSC

THE FOLLOWING SUMMARY IS intended to provide information and foster understanding of the strategic importance of the OSC's mandate: investor protection and fairness and efficiency of the capital markets in Ontario. ■

The OSC Mandate

The OSC has administrative responsibility for the Securities Act, the Commodity Futures Act and Deposit Regulations Act, as well as certain provisions of the Ontario Business Corporations Act. The bulk of day-to-day operations centre around the administration and enforcement of the Securities and Commodity Futures Acts. There are three principal activities involved in securities regulation in Ontari and in most other jurisdictions with developed capital markets:

1. **Registration of persons trading in securities and commodity futures contracts.**
   The OSC requires competency and integrity of registrants. In the case of firms, it is concerned with financial stability and adequate supervision of individuals.
2. **Reviewing and clearing of prospectuses.**
   As a general rule, no person may sell new securities to the public unless a prospectus, containing full, true and plain disclosure, is filed with the Commission and provided to purchasers.
3. **Enforcement of the Securities Act and Commodity Futures Act.**
   Staff investigate suspected violations of the legislation and in appropriate cases, recommend either administrative proceedings before the Commission or prosecution under both Acts. Staff also supervise the filing of financial statements, insider trading reports and other material. ■

Challenges Facing the OSC

The OSC's mandate demands interaction and consultation with public and private sector organizations at provincial, national and international levels and operation within a dynamic securities environment where the pace of change and advancement of technology is dramatic. The Commission is expected to deliver services within a reasonable budget despite these mounting pressures. ■

Many specific factors affect the OSC's ability to fulfill its mandate: the increasing complexity of the capital markets and new financial instruments; the growing volume of filings; the opening of the Ontario market to foreign securities firms and domestic financial institutions; the internationalization of markets with global trading of securities; and the emergence of financial service conglomerates. There is also increasing public interest in the adequacy of regulation of financial institutions and public companies. Financial market scandals, both in Canada and abroad, create demand for greater accountability. ■

The Commission and its Powers

The Commission has the power, among other things, to:

- investigate violations of the statutes for which the Commission is responsible;
- suspend, cancel or impose terms on registration, or reprimand registrants;
- grant or deny exemptions from provisions concerning prospectuses, registration, take-over bids or issuer bids;
- cease trade any security;
- order funds be frozen or apply for court-appointed receivers;
- order audits of registrants, reporting issuers, mutual fund custodians and clearing agencies or houses;
- grant relief from financial reporting requirements; and
- grant relief from proxy solicitation and insider trading requirements.

The OSC is empowered to recognize as SROs, associations or organizations representing registrants. The OSC has recognized the TSE and the TFE, delegating to them the authority and the responsibility to monitor and regulate their members. The OSC retains the power to review their decisions. SROs impose financial and trading rules on their members which are enforced through independent audit and compliance checks. ■

The Structure of the Commission

The OSC is a Schedule I regulatory agency of the Ontario government. The Chairman of the Commission reports to the Minister of Financial Institutions who answers for the OSC in the Legislature and presents OSC financial estimates as part of the Ministry's estimates. ■

The Commission

The OSC is a two-tiered organization. The first tier is an autonomous statutory tribunal – the Commission, appointed by Order-in-Council and comprised of a Chairman and Vice-Chairman who serve full time, a second Vice-Chairman and up to eight other Commissioners serving on a part time basis. Commissioners are drawn from various fields related to the securities and commodity futures industries, and include lawyers, accountants, academics and securities industry professionals. The Chairman has ultimate responsibility for the OSC. The Commission formulates policy, sits as an administrative tribunal in hearings, acts as an appeal body from decisions made by the Executive Director and staff, hears appeals from decisions of the TSE and the TFE and makes recommendations to the government for changes in legislation. Two members constitute a quorum. The Commission meets weekly, as well as convening as a full body or in panels for hearings or public policy meetings when required. Staff support is provided by the Offices of the Secretary and the Legal Advisor. ■

The Office of the Secretary also receives and co-ordinates the processing of all applications pursuant to OSC Policy 2.1. When staff are opposed to an application, the applicant is entitled to a hearing before either the Executive Director or the Commission pursuant to OSC Policy 2.7. Decisions take effect immediately, although the Commission may grant a stay. The following summarizes the right of appeal:

FROM	TO
Staff	Executive Director
Staff, including Executive Director	Commission (in most instances)
TFE	Commission
TSE	Commission
Commission (except rulings under s. 73SA and s. 38CFA)	Divisional Court

The Office of the Legal Advisor performs such functions as research, policy formulation, legislative drafting, private sector liaison, special projects work and general legal advice. This office is responsible for legislation and regulations recommended to the Minister by the Commission. It co-ordinates with other divisions of the MFI and the CSA – an association comprised of securities administrators of each of the provinces in Canada which seeks to achieve, wherever possible, national uniformity in legislation and policies. ■

The Staff of the Commission

The second tier of the Commission is an administrative agency composed of approximately 150 lawyers, accountants, investigators and support staff serving the day-to-day operations of the Commission. The Executive Director is responsible for staff and for the activities of the four operating branches – Corporate Finance, Capital Markets, Enforcement and Administrative and Systems Services – and the Offices of the Chief Accountant and the General Counsel. The Executive Director also participates actively in policy development. ■

The Chief Accountant is responsible for the formulation of financial reporting policy and the resolution of questions on the interpretation and application of accounting principles and auditing standards. This office monitors the accounting and auditing standards-setting functions of the CICA and provides input on emerging issues and commentary on proposed standards. ■

The Office of the General Counsel is responsible for all legal matters at the staff level and provides consultation to staff lawyers in regard to interpretation of all legislation, regulation and policies administered by the Commission. The General Counsel assumes responsibility for applications to the Executive Director for waivers of the valuation requirements pursuant to OSC Policy 9.1, applications for exemption from take-over bid rules, and participates in policy initiatives generated by staff. The Office of the General Counsel is involved in hearings relating to take-over bids and other securities law issues. ■

The Corporate Finance Branch reviews prospectuses to ensure that the information disseminated appears complete and that the offering appears to be not contrary to the public interest. The fact that the OSC accepts a prospectus does not mean that the OSC has assessed the merits of the investment, nor does it guarantee the completeness or accuracy of the prospectus. The responsibility for providing full, true and plain disclosure rests with the issuer and underwriter. Policy development remains an important aspect of the work of the Branch. ■

The Capital Markets Branch expands the Commission's resources to pursue regulatory initiatives, and to identify and respond to developments in the evolving marketplace. The Branch encompasses the former Registration and Commodity Futures Branches. The Registration Section is responsible for the initial and ongoing registration of companies and individuals carrying on securities activities as dealers, advisers or underwriters in Ontario. ■

The Commodity Futures Section of the Capital Markets Branch administers the CFA and Regulations. The Section exercises regulatory oversight of the TFE and, in so doing, reviews the by-laws of the TFE. The Section also advises with respect to other derivative instruments including options. All registered futures commission merchants must be members of the TFE and are subject to its by-laws. ■

Chief Investigator Mal Smith (left) and Chief Forensic Accountant Larry M. Waite (right), in conference.

Activities of the Enforcement Branch, the largest Branch in the Commission, include surveillance of trading in securities, handling of complaints concerning securities matters and the administration of COATS. The Investigation and Enforcement Section carries out investigations into possible violations of statutes administered by the Commission. Violations of securities legislation may result in administrative proceedings before the Commission or quasi-criminal prosecutions pursuant to the Securities Act and Commodity Futures Act before the Courts. The Market Surveillance Section of the Branch is responsible for the administration of COATS and the surveillance of the trading of shares of reporting issuers. COATS is the electronic quotation and trade reporting system developed for companies whose shares are not listed on a Canadian stock exchange. ■

The newly-formed Administrative and Systems Services Branch includes the project team which is responsible for implementation of a major computerization strategy. This initiative represents a significant commitment of resources to strengthen the regulatory process in a highly complex, computerized industry. The Branch provides administrative and systems expertise to meet expanding responsibilities and expectations. The continuous disclosure and insider trading functions are also part of this Branch. ■

ADVISORY BOARDS AND SECURITY ADVISORY COMMITTEE

The Commodity Futures Advisory Board (CFAB)

The CFAB serves in an advisory capacity to the Commission and is regularly consulted by the Commodity Futures Section when issues arise. The CFAB consists of leading industry specialists in the area of commodity futures contracts, commodity futures options and other derivative instruments.

▪PETER C. CAVELTI (CFAB Chairman)	President, Cavelti Capital Management Ltd.
▪KENNETH B. FOXCROFT	Senior Vice-President – Treasury, Treasury & Investment Banking Division. The Toronto-Dominion Bank
▪JAMES G. LAISHLEY	Vice-President Refco Futures (Canada) Ltd.
▪HOWARD M. McLEAN	Executive Director The Center for Currency Options
▪HARRY G. SIMPSON	Retired Partner Price Waterhouse

The Financial Disclosure Advisory Board (FDAB)

The FDAB consults and advises the Commission and staff on financial disclosure matters. Members are appointed by Order-in-Council and have traditionally comprised three public accountants, a financial analyst and a representative from industry.

▪DAVID L. KNIGHT, FCA (FDAB Chairman)	Partner Peat Marwick, Toronto
▪JAMES B.C. DOAK	Vice-President and Director First Marathon Securities Ltd.
▪WILLIAM R. SLOAN, FCA	Partner, Arthur Andersen, Ottawa
▪DEREK W. WILLIAMS, CA	Partner, Coopers & Lybrand, Toronto
▪KEITH O. DORRICOTT	Executive Vice-President and Chief Financial Officer Bank of Montreal

Securities Advisory Committee (SAC)

Created by OSC Policy 1.7, the SAC serves in an advisory capacity liaising through the Office of the Legal Advisor to the Commission and staff. At the request of the Commission, the Committee will review and comment on proposed amendments to the SA and Regulations, and on Policy Statements. The Committee will review other matters at the request of the Commission and report to the Commission annually respecting issues the Committee considers should be addressed by the Commission. ■

The Committee consists of nine Ontario securities lawyers appointed by the Commission:

▪GEORGE GLOVER (Chairman)	Fasken & Calvin
▪WILLIAM AINLEY	Davies, Ward & Beck
▪STEVEN COXFORD	Smith, Lyons, Torrance, Stevenson & Mayer
▪MARLENE DAVIDGE	Tory, Tory, Deslauriers & Binnington
▪JEAN FRASER	Blake, Cassels & Graydon
▪GLORIANNE STROMBERG	Cassels Brock & Blackwell
▪MARTIN KOVNATS	Goodman & Carr
▪PETER McCARTER	Aird & Berlis
▪RICHARD LOCOCO	Osler, Hoskin & Harcourt

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Acting Legal Advisor	593-8224
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MICHAEL MEAGHER, *Chief Accountant*	593-8219
BRENDA EPRILE, *Associate Chief Accountant*	593-8221

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ELIZABETH NASH, *Acting Manager, Administration*	593-3663
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JOHN SEDLAK, *Manager, Disclosure Section*	593-8325

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DAVID WALTERS, *Deputy Director, Commodity Futures*	593-8279

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